Idaho Natural Gas Utilities

The Idaho Public Utilities Commission regulates two natural gas utilities - Intermountain Gas Company and Avista Utilities. Questar Gas provides service to a small number of customers in southeast Idaho, but is regulated by the Utah commission.

Intermountain Gas supplies natural gas to southern Idaho, serving nearly 242,000 customers. Avista has gas operations in eastern Washington and northern Idaho, serving nearly 60,500 customers in northern Idaho.

In June 1990, Questar Gas - then known as Mountain Fuel Supply Co. - of Salt Lake City, Utah, applied to the commission for authority to serve Idaho customers in the Preston area. Together, the commission and the Idaho Legislature amended *Idaho Code 61-505*, clarifying the commission's ability to contract with neighboring state regulators to regulate rates in Idaho border communities served by the neighboring state's utilities. The amendment encourages such utilities to extend service into Idaho without incurring undue regulatory expense.

When natural gas reached Idaho communities in the 1950s, local distribution companies' supply came from the Northwest Pipeline Corporation of Salt Lake City. The pipeline serves much of the Pacific Northwest, connecting the Four Corners fields of the southwest with Canadian supply.

An increased demand for gas during the "off season," and the opening of the Alliance Pipeline, which has allowed low-cost Canadian gas to be transported to markets in the Midwest where gas prices are generally much higher, are cited as reasons for recent increases in the price of wholesale gas.

Additionally, there has been an increase in the number of natural gas fired turbines for electric power generation which has increased competition for gas supply during the summer months, a period which historically has been used by gas companies to purchase and store gas at low prices for use during the winter months when demand and prices are generally higher.

	Intermountain	**Avista**	**Questar**	**Total**
Customers	241,830	60,463	1,666	303,959
% of Total	79.56%	19.89%	0.55%	100%
Therms (millions)	469.8	117.9	1.8	589.5
% of Total Therms	79.7%	20%	0.3%	100%
Revenue (millions)	$162.80	$52.43	$1.11	$216.34
% of Total Revenue	75.25%	24.23%	0.51%	100%

INTERMOUNTAIN GAS COMPANY

	Residential	Commercial	Industrial	Transportation	Total
Customers	216,872	24,840	11	107	241,830
% of Total	89.68%	10.272%	0.005%	0.044%	100%
Therms (millions)	157.9	84.4	3.1	224.4	469.8
% of Total	33.61%	17.95%	0.66%	47.77%	100%
Revenue ($ millions)	$102.18	$49.35	$1.4	$9.86	$162.8
% of Total	62.77%	30.31%	0.86%	6.06%	100%

AVISTA UTILITIES

Idaho services only

	Residential	Commercial	Industrial	Transportation	Total
Customers	53,325	7,027	100	11	60,463
% of Total	88.19%	11.62%	0.17%	0.02%	100%
Therms (millions)	39.1	23.2	2.1	53.5	117.9
%of Total	33.16%	19.68%	1.78%	45.38%	100%
Revenue (millions)	$32.55	$17.43	$1.41	$1.04	$52.43
% of Total	62.08%	33.24%	2.69%	1.98%	100%

QUESTAR GAS COMPANY

	Residential	Commercial	Industrial	Transportation	Total
Customers	1,665	1	0	0	1,666
% of Total	99.94%	0.06%	0.00%	0.00%	100%
Therms (millions)	1.7	0.1	0.0	0.0	1.8
% of Total	95.19%	4.81%	0.00%	0.00%	100%
Revenue (millions)	$1.07	$0.03	$0.01	$0.00	$1.11
% of Total	96.4%	2.7%	0.90%	0.00%	100%

Gas Utility Case Reviews

June 30, 2004

INTERMOUNTAIN CUSTOMERS GET 10% INCREASE

Case No. INT-G-04-2, Order No. 29540

Rates for residential customers of Intermountain Gas increased by nearly 10 percent effective June 30.

The Idaho Public Utilities Commission approved the new rate to reflect the rapidly fluctuating cost of wholesale natural gas. However, the company states that current gas futures, subject to the laws of supply and demand, may soften in coming months. The commission directed the company to seek a rate adjustment before the winter heating season if the price deviates more than 5 percent of the current weighted average cost of gas (WACOG), which, as of June 30, will be 55.49 cents per therm. The WACOG before this increase was 47.5 cents per therm. Forward monthly NYMEX natural gas futures for the Northwest are in the range of 49 cents to 61.5 cents for the next year.

The increase approved does not reflect a permanent rate change, but is part of the company's purchased gas cost adjustment, typically a yearly process that adjusts the gas purchase portion of customer bills up or down depending on the cost of natural gas in the wholesale market. "The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion," the commission said. "Wholesale natural gas prices have fluctuated dramatically over the past few years, resulting in higher natural gas costs for gas utilities nationally and in Idaho."

PGA adjustments do not increase or decrease the company's earnings. The revenue raised from an increased PGA goes directly to pay Intermountain's gas suppliers. The company does not drill its own wells and is dependent on wholesale natural gas to serve its approximate 242,000 southern Idaho customers. During years when wholesale prices are higher than the company forecasts, customers experience an increase in the gas purchase portion of their bills, which usually represents about half the total bill. When wholesale prices drop lower than projected, customers get a decrease. In 2003, customers got a 33 percent increase while in 2002 they got a 28 percent decrease in the PGA portion of their bills. "In contrast to a general rate case, the annual PGA tracker considers only those changes in gas costs that are generally recognized as outside the company's control," the commission said.

The increase will raise $22.1 million to cover the company's gas purchases. Commission staff reviewed the company's filing and related documentation to verify that the company's earnings will not increase as a result of the PGA.

The rate for customers using an average 69 therms per month for natural gas space and water heating will increase from 81 cents to 89 cents per therm, or about $5.58 per month. The rate for customers who use natural gas for space heating only and average about 48 therms per month will increase from 92 cents to $1 per therm, or about $3.86 a month. The rate for commercial customers using an average of 299 therms per month will increase from 77 cents to 85 cents per therm, or about $26.19 per month. A therm is a unit of heat equal to 100,000 British thermal units (BTUs).

The commission placed nearly $700,000 of Intermountain's request in a reserve account until the company complies with previous commission orders to create a hedging and risk management strategy that makes it easier for the commission to assess the company's gas purchasing decisions. The company's current practice of relying on sound judgment using natural gas price fundamentals and other market indicators "has largely been successful," the commission said, but "appears to leave Intermountain Gas and its customers more vulnerable than necessary." The commission is asking the company to implement a flexible systematic method for gas purchasing decisions that can be audited.

"To conduct prudency reviews, the commission needs to know what information the company used when it decided whether or not to purchase natural gas," the commission said. "Criteria that trigger action or company explanations of why action was not taken are essential so that the commission may assess the company's decisions and avoid hindsight reviews."

Commissioners said they have previously asked the company to change how it manages market risk. "Although considerable time has passed, these concerns have not been adequately addressed."

The commission also ordered that future PGA filings be made closer to the winter heating season to more accurately forecast prices and more closely align rate changes with the winter heating season. "Due to the market volatility experienced the last several years, we have struggled to set rates using futures pricing information that predicts what winter commodity prices will be six months in the future," the commission said. "Although we used the best information available in May, better information is available in August." The commission directed the company to submit its 2005 PGA filing by Aug. 15 for a rate that would be effective Oct. 1.

October 28, 2004

INTERMOUNTAIN GAS FILES GROWTH PLAN WITH COMMISSION

Case No. INT-G-04-1, Order No. 29617

The Idaho Public Utilities Commission took comments through Nov. 16 on a five-year gas procurement plan for Boise-based Intermountain Gas Company. As of press deadline for this report, a final order had not been issued.

The company, which serves 242,000 customers in 74 southern Idaho communities, anticipates its load growth at about 4 percent per year over the next five years. The company's residential and commercial customers increased 5 percent during the first quarter of fiscal year 2004. The company has about 9,500 miles of transmission, distribution and service lines, with more than 350 miles of those lines added in fiscal year 2003 to accommodate the company's growing customer base.

Without an increase in capacity, the company says it will fall short of meeting its delivery needs during peak use by about winter of 2007. The company plans to utilize a number of options to increase the amount of gas delivered, the capacity on its pipelines and its storage capabilities.

The company plans to increase supply and capacity to three "lateral," regions where the company has its own transmission pipelines that take gas from the major Williams Pipeline transmission line and delivers it to communities via the Idaho Falls Lateral, the Sun Valley Lateral and the Canyon County Lateral. In areas where the company does not have a lateral, gas from the Williams Gas Pipeline feeds directly into city-gate stations to each of the communities in Intermountain's southern Idaho territory.

The Idaho Falls Lateral serves cities between Pocatello north to St. Anthony. The residential, commercial and industrial customers in the Idaho Falls Lateral represented about 20 percent of the company's total winter delivery during the winter of 2003-04. A peak-day delivery deficit is projected in this region for 2005. The company says the deficit can be eliminated or mitigated by working with the region's industrial customers to facilitate the use of fuel oil during extremely cold temperatures. The company also plans some pipeline expansion to increase supply and reliability.

In the Sun Valley region, from the interstate north to Sun Valley, the company anticipates a peak-day shortfall by 2005 and proposes an upgrade to the existing pipeline.

In the Canyon County region, the company projects deficits beginning in 2006. The company is currently exploring optional means of enhancing the distribution capability on this lateral. This region accounted for 17 percent of the company's winter send-out in 2003-04.

September 9, 2004

AVISTA ELECTRIC, GAS RATE INCREASES ANNOUNCED

Case No. AVU-E-04-1, Interlocutory Order No. 29588; Case No. AVU-G-04-1, Order No. 29590

Avista Utilities combined its general electric and gas rate increases into one case. Details about the case and Avista's petition for reconsideration regarding some gas purchases issues are found on pages 30-32 of this report.

August 16, 2004

COMMISSION OKs AVISTA PLAN, BUT WANTS REPORT ON BENCHMARK CHANGES

Case No. AVU-G-03-2, Order No. 29577

The Idaho Public Utilities Commission is accepting a long-range gas supply plan for Avista Utilities, called an Integrated Resource Plan, but is asking the company to report back on how Washington state's rejection of a gas purchase mechanism could impact Idaho ratepayers.

Avista's "benchmark mechanism" established a cost for natural gas for Washington, Oregon and Idaho at the first of very month based on an assumed volume purchase from each of the three gas supply basins serving the Northwest. Avista Energy, an affiliate of Avista Utilities, managed the program.

In February, the Washington Utilities and Transportation Commission, in a split decision, found that Avista's benchmark mechanism did not provide adequate safeguards for transactions between affiliates such as Avista Utilities and Avista Energy. In response, Avista Utilities proposes to hire additional personnel so it can return to internally purchasing natural gas for its customers, including those in Idaho, by April 1, 2005.

Noting that some aspects of the benchmark mechanism benefited Idaho customers, the Idaho commission is concerned that Washington's decision may result in increased costs to Idaho. The Idaho commission is asking Avista to supply it with copies of all benchmark mechanism transition documents submitted in the company's other states and to address the regulatory consequences and economic and operational impacts in Idaho that will result from terminating the program.

Other facets of Avista's overall Integrated Resource Plan include continuing gas and electric efficiency activities that are funded by a 0.5 percent tariff rider on customer bills. The rider generates about $1 million per year. Some gas efficiency programs for residential customers include funding assistance for programmable thermostats, high-efficiency gas furnaces, high-efficiency gas water heating and weatherization. Qualified low-income customers are eligible to receive incentives from community action agencies within Avista's service territory.

Avista Utilities, headquartered in Spokane, provides gas and electric service in eastern Washington, northern Idaho and southern Oregon. Avista has about 60,000 natural gas customers in northern Idaho.